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FISCAL IMPACT STATEMENT

LS 7318

BILL NUMBER: HB 1328

NOTE PREPARED: Jan 18, 2011

BILL AMENDED:

SUBJECT: SSACI Assistance.

FIRST AUTHOR: Rep. Dermody

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: *Transfer:* This bill allows the State Student Assistance Commission (SSACI) to transfer funds between Freedom of Choice Grants and Higher Education Awards.

Summer School The bill allows SSACI recipients to use up to two semesters worth of aid on summer classes beginning July 1, 2013.

Graduate Students: The bill provides that assistance programs may be provided only for undergraduate courses and for no more than eight semesters.

Data Submission: The bill requires private universities that accept SSACI funds to submit specified information to the Commission on Higher Education (CHE).

Higher Education Tuition Tax Credits: Beginning July 1, 2013, the bill changes the Minority Teacher, Special Education Services, and Nursing Scholarship Programs from up-front grant programs to reimbursement programs using income tax credits, and provides that the tax credits may be claimed after the academic program is completed. It limits the total credits to \$400,000 per state fiscal year. The bill also limits the annual credit amount so that full reimbursement is recouped during the same period as the participant is fulfilling the program's work requirements. The bill requires individuals participating as students in the Minority Teacher, Special Education Services, and Nursing Scholarship Tax Credit Programs after June 30, 2013, to maintain the greater of the grade-point average required by their educational institution or 2.5 on a 4.0 scale.

21st Century Scholars Program: The bill changes the eligibility requirements for the 21st Century Scholars

Program for individuals who first enroll in the program after June 30, 2011, to:

1. Allow only 7th and 8th graders to enroll in the program; and
2. Remove the free and reduced lunch criteria and replace it with the annual family income standard used for the free (not reduced price) lunch program.

It requires SSACI to prescribe an application form and approve 21st Century Scholar applications after June 30, 2011.

Beginning in July 2012, the bill also requires SSACI to reevaluate the financial need of 21st Century Scholar Program participants when they enter college using the eligibility requirements used when the participants first entered the program. It provides that students who qualified for the program initially and successfully met the program's requirements but no longer meet the financial need standard when entering college are entitled to receive a one-time grant of \$1,000 to be used at the Indiana college of their choice.

For individuals applying for the 21st Century Scholars Program after June 30, 2013, the bill requires the student to achieve a high school grade-point average of at least 2.5 on a 4.0 scale.

It also limits the 21st Century Scholars Program award for students whose applications are approved after June 30, 2012, to a limit set by SSACI based on available funds and number of participants, with a cap equal to the difference between the highest in-state tuition plus fees minus the maximum Frank O'Bannon grant. The bill prohibits SSACI from transferring money into the 21st Century Program from any other scholarship program.

Program Approval: The bill permits the Commission for Higher Education to approve certificate programs of less than one year.

Effective Date: July 1, 2011; July 1, 2013.

Explanation of State Expenditures: *Transfer:* The bill would allow the State Student Assistance Commission to transfer money from the Freedom of Choice Grant Fund to the Higher Education Award Fund after the commitments of the Freedom of Choice Grant have been met. The Freedom of Choice Awards totaled about \$43.7 M in FY 2007 and increased to \$52.5 M in FY 2009, and the Higher Education Awards were about \$119.6 in FY 2007 and increased to \$144.4 M in FY 2009. The bill would allow greater flexibility in the use of scholarship funding. Currently, the transfer can only be made from the Higher Education Award Fund to the Freedom of Choice Grant Fund.

Summer School: The provision should have minor fiscal impact.

Graduate Students: The bill might disqualify about 358 students from receiving grants in the area of children of veterans awards for fee remission. Since the current appropriation for veteran scholarships did not cover all the costs, colleges paid part of the costs. SSACI paid about \$1.1 M, and colleges provided about \$300,000 in funding. These expenses had been greater in prior years.

Data Submission: The bill clarifies that private universities have to submit specified information to the CHE. CHE should be able to process the additional information without additional expense.

21st Century Scholars Program: The removal of the 6th grade from the application process could reduce the number of applicants for the programs. There are about 32,000 students enrolling in the program each year

in Grades 6, 7, and 8. The students, if they are eligible for free or reduced lunch, can enroll in that year and remain in the program even if they are not eligible for free or reduced lunch in later years. It is estimated that the change could reduce the number of applications by up to 10,000 per year.

The bill changes the income requirements to be able to apply for the program from qualifying for free and reduced lunch to only free lunch at the time of application. The bill would also require that the student must still qualify for the free lunch program when they apply for the scholarship. The bill could substantially reduce the cost of the program. For the 2011 school year, about 38.8% of the students qualified for the free lunch program and 7.7% qualified for the reduced lunch program. The removal of the reduced lunch program students could reduce the number of applicants by about 20%. The requirement that the student would have to qualify for the free lunch program when they are affirmed would further reduce the number of students that might receive a full scholarship. If they would have been affirmed except for the income qualifications, then they are eligible for a one-time scholarship of \$1,000. The bill also added a requirement that the family income would have to be such to qualify that they meet the income qualifications for the free lunch program to renew the scholarship. The requirement could also reduce costs. The appropriation for the current program is about \$29.1 M per year. A 30% reduction in costs would be about \$9 M per year.

The bill also establishes a limit on the maximum amount of the scholarship and limits the expenditures to the appropriation. The bill does not allow other scholarship funding to be transferred to the 21st Century Scholars Program. The provision could reduce the cost of the program by a maximum of \$4 M per year.

The 2.5 grade-point average (GPA) provision could reduce the number of students that might be affirmed for the scholarship. For 2010, there were 6,661 affirmations to receive scholarships out of 12,970 students enrolled in the program. FY 2008, 11,346 21st Century Scholars received an average award of about \$2,500. Of the approximately 6,661 affirmations, about 1,673 students had GPAs between 2 and 2.49, 1,931 had a GPA between 2.5 and 3.0, and 3,057 had a GPA higher than 3.0 on a 4.0 scale. If the requirement was increased to a 2.5 GPA, some of the 1,673 students might have probably obtained a 2.5 GPA or higher through additional work. Assuming that 1/3 of the 1,673 students would have obtained at least a 2.5 GPA, there would still have been about 1,115 students who would not have qualified. The reduction in scholarship funds for 1,100 students would have been about \$2.8 M.

The various provisions of the 21st Century Scholars Program have individual cost estimates assigned. Some of the provisions are interrelated so the total savings are not simply the sum of the various estimates. It is unknown exactly what the net impact might be.

Program Approval: The provision should not have any additional costs for CHE.

Higher Education Tuition Tax Credit: The establishment of the Higher Education Tuition Tax Credit will increase the cost for the Department of State Revenue (DOR) relating to the revision of tax forms, instructions, and computer programs. The DOR's existing level of resources should be sufficient to implement these changes.

The bill eliminates the scholarship costs of the Minority Teacher or Special Education Services Scholarship Program and the Nursing Scholarship Program beginning in FY 2014. Currently, the Minority Teacher or Special Education Services Scholarships are about \$416,000 per year and the Nursing Scholarships are about \$377,000 per year. Colleges and universities would still have to verify the grade-point average for individuals applying for the income tax credit. It is unknown how much the change might reduce the cost of these programs. SSACI would probably not have any reductions in administrative costs since they would still need

to approve applications for the tax credit.

Explanation of State Revenues: *Higher Education Tuition Tax Credit:* The bill converts the Minority Teacher or Special Education Services Scholarship Program and the Nursing Scholarship Program to an income tax credit for tax years starting in 2014. Beginning in FY 2014, the bill limits the maximum credits that may be awarded to \$400,000 annually for each program. The annual amount of tax credit that may be granted to an individual in the Minority Teacher or Special Education Services Scholarship Program is the lesser of the balance of the student's total cost of attending an eligible institution or \$1,000, with the maximum being the \$4,000 over four years. The annual amount of tax credit that may be granted to an individual in the Nursing Scholarship Program is the lesser of the balance of the student's total cost of attending an eligible institution or \$5,000.

The tax credit may be claimed by a taxpayer who has attained a postsecondary degree and is fulfilling the work requirement of the Minority Teacher, Special Education Services, or Nursing Scholarship Programs. The Minority Teacher and Special Education Scholarship program requires that an individual work at least three of the first five years in an underserved area, and the Nursing Scholarship Program requires two years of employment in areas outlined in the program. The individual tax credit is equal to the total amount of credits awarded divided by the number of years that the individual has agreed to work in Indiana. The credit is refundable. The credits will be awarded for the first time in FY 2014. Assuming these credits are awarded to students beginning college in FY 2014, the earliest that credits may be claimed by these students would be tax year 2015 for students receiving 2-year degrees and tax year 2017 for students receiving 4-year degrees. Tax credits could be claimed earlier to the extent that credits are awarded in FY 2014 to students who have already completed years of college at that point.

The ultimate impact of the amount of credits awarded to those that are actually claimed would depend on a number of factors including the applicants obtaining postsecondary degrees, maintaining a grade-point average of 2.5 or above on a 4.0 grading scale, and employment in one of the underserved areas defined in the scholarship programs. The maximum revenue loss in FY 2016 would be \$200,000 if all the Nursing Program scholarships were granted to LPN students in a two-year program. Beginning in FY 2018, the maximum potential revenue loss would be approximately \$334,000 if all the individuals who apply meet the requirements of the new programs. The tax credit could potentially max out at \$800,000 annually beginning in FY 2020.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Commission for Higher Education; State education institutions; State Student Assistance Commission

Local Agencies Affected:

Information Sources: Laurie Gavin, State Student Assistance Commission.

Fiscal Analyst: Chuck Mayfield, 317-232-4825.